

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 /026 W

----- 094756

R 041610Z SEP 75

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 3001

S E C R E T SECTION 1 OF 2 ALGIERS 1950

EXDIS

FOR UNDERSECRETARY ROBINSON FROM AMBASSADOR

E.O. 11652: XGDS1

TAGS: PFOR, ENRG, AG, US

SUBJ: CHEMICO PROBLEM

REF: (A) ALGIERS 1936 (B) STATE 203496

1. SUMMARY. DURING CALL I MADE AT SONATRACH TO REEMPHASIZE FOR MODERATION PRESENT DISPUTE WITH CHEMICO, GHOZALI CONTINUED TO STRESS THAT CHEMICO HAS NO IMMEDIATE CASH PROBLEM AND SUPPLIED BACKUP FIGURES. HE NOTED ALSO THAT NEW CONTENTIOUS ELEMENT HAD BEEN ADDED INVOLVING "PUBLIC RELATIONS EXPENDITURES" PAID BY CHEMICO INTO SWISS BANK ACCOUNTS. V.P. OF SONATRACH, KAHLOUCHE, WILL LEAVE FOR WASHINGTON SOON TO SEEK EXIM COMMITMENT, INFORMALLY OR IN PRINCIPLE, FOR ADDITIONAL LOAN UP TO ABOUT DOLS 70 MILLION TO FINANCE ADVANCE PAYMENTS TO CHEMICO. IF WE ARE NOT TO SEE CONTRACT COLLAPSE, TO DETRIMENT OF BOTH US AND ALGERIA, STRONGLY RECOMMEND THAT MAJOR EFFORT BE MADE TO ACCOMMODATE ALGERIAN REQUEST. END SUMMARY

2. ECON OFFICER BURNS AND I CALLED ON GHOZALI, PRESIDENT OF SONATRACH, SEPTEMBER 3 TO REEMPHASIZE TO HIM OUR CONVICTION THAT CHEMICO WILL DROP PROJECT UNLESS SONATRACH AGREES TO NEW TERMS. TOLD HIM OF NICHOL'S PESSIMISTIC ATTITUDE AND LACK OF CONFIDENCE THAT ANYTHING COULD BE ARRANGED WITH EXIMBANK BEFORE THE END OF SEPTEMBER (REF A). THEN POINTED

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OUT AGAIN THAT WORST POSSIBLE OUTCOME WOULD BE FOR CHEMICO

TO PULL OUT--BOTH US AND ALGERIA WOULD BE THE LOSERS.

3. GHOZALI REPLIED THAT AS BEFORE THERE WERE THREE ELEMENTS OF PROBLEM: 1) ASCERTAINING RESULTS OF AUDIT OF CHEMICO'S BOOKS (COMPLETE REPORT DUE AT END OF SEPT); 2) SECURING FINANCING FOR OVERRUN; AND 3) MAINTAINING THE CONTRACT. NEW ELEMENT, HOWEVER, HAD NOW BEEN ADDED. IT HAD BEEN FOUND THAT CHEMICO HAD PAID DOLS 15 MILLION INTO SWISS BANK ACCOUNTS FOR "PUBLIC RELATIONS EXPENDITURES." SONATRACH WOULD REFUSE TO ALLOW SUCH DISBURSEMENTS AS LEGITIMATE EXPENSES.

4. RE CHEMICO'S CASH FLOW PROBLEM, GHOZALI SHOWED US FOLLOWING FIGURES FOR NET CASH FLOW POSITION (OR ESTIMATES) ON DOLLAR ACCOUNT ONLY AS OF END OF EACH MONTH:

JUNE 1975 PLUS DOLS 33 MILLION
JULY PLUS DOLS 33 MILLION
AUGUST PLUS DOLS 18 MILLION
SEPTEMBER PLUS DOLS 11 MILLION ESTIMATED)
OCTOBER PLUS DOLS 5 MILLION
NOVEMBER MINUS DOLS 1.5 MILLION
DECEMBER MINUS DOLS 1.5 MILLION

THESE TOTALS BASED ON CHEMICO'S UNEVALUATED FIGURES, GHOZALI ADDED, AND SHOW THAT CHEMICO HAS NO CAS PROBLEM UNTIL NOVEMBER.

5. I THEN ASKED GHOZALI IF, FOR SAKE OF ARGUMENT, HE ACCEPTED PROPOSITION THAT CHEMICO DID IN FACT HAVE CAHS FLOW PROBLEM BY END OF SEPTEMBER, WOULD SONATRACH BE ABLE ACCELERATE PAYMENTS (IN ASKING THIS I HAD IN MIND NICHOL'S CONTENTION THAT SONATRACH COULD NOT ACCELERATE PAYMENTS EVEN IF IT WANTED TO). GHOZALI SAID IT WOULD DEPEND ON WHETHER EXIM WAS READY TO HELP FINANCE OVERRUN, WHICH RELATED TO CASH FLOW PROBLEM. IF THERE WERE AGREEMENT IN PRINCIPLE FROM EXIM TO HELP AND ONLY PROBLEM WAS ONE OF BUREAUCRATIC PROCESS WHICH MUST BE COMPLETED BEFORE LOAN COULD BE AMENDED, SONATRACH WOULD BE WILLING ACCELERATE PAYMENTS. HE NOTED THAT IN FACT SONATRACH WAS ALREADY DOING SO, HAVING PAID
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72 PERCENT OF CONTRACT PRICE TO DATE FOR ONLY 52 PERCENT OF WORK.

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INFO OCT-01 ISO-00 /026 W

----- 094858

R 041610Z SEP 75

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 3002

S E C R E T SECTION 2 OF 2 ALGIERS 1950

EXDIS

FOR UNDERSECRETARY ROBINSON FROM AMBASSADOR

6. I SAID IT SEEMED ADVISABLE FOR GHOZALI TO GET IN TOUCH WITH EXIM IMMEDIATELY AND SEE WHAT COULD BE WORKED OUT. HE NOTED THAT HE HAD ALREADY DISCUSSED PROBLEM WITH MR. CASEY LAST SPRING AND HE WAS SENDING HASSEN KAHLOUCHE, SONATRACH VICE PRESIDENT WHO HAD WORKED WITH EXIM OVER YEARS, TO WASHINGTON WITHIN NEXT TEN DAYS. KAHLOUCHE WOULD ASK BANK TO AGREE IN PRINCIPLE TO FINANCE OVERRUN UP TO CERTAIN MAXIMUM, WITH EXACT AMOUNT TO BE WORKED OUT LATER BETWEEN CHEMICO, SONATRACH AND BANK. I CAUTIONED HIM THAT WE UNDERSTOOD EXIM POSITION TO BE THAT IT WOULD NOT BE ABLE TO MAKE DECISION ON QUESTION OF OVERRUN UNTIL SONATRACH AND CHEMICO HAD AGREED ON ITS AMOUNT AND COMPOSITION (REF B).

7. I RECALLED THAT NICHOLS HAD SAID CHEMICO WOULD START SLOWDOWN IF CASH FLOW PROBLEM NOT SOLVED AND THEY DID NOT HAVE SOMETHING TANGIBLE TO WORK WITH BY END OF MONTH. GHOZALI SAID NICHOLS HAD TOLD HIM SAME THING. SONATRACH WAS TRYING TO BE PRAGMATIC AND WAS WILLING RENOUNCE MANY OF ITS RIGHTS UNDER CONTRACT, BUT COULD NOT AFFORD RELINQUISH CONTRACT BECAUSE IT WOULD SET VERY BAD PRECEDENT. IT WOULD SEE CONTRACT COLLAPSE BEFORE IT WOULD SUBMIT TO BLACKMAIL. SONATRACH WOULD PURSUE CASE IN INTERNATIONAL ARBITRATION, ADN WOULD EVENTUALLY SUCCEED IN STRIKING BLOW AGAINST CHEMICO EVEN IF IT TOOK YEARS. I POINTED OUT THAT IT UNDOUBTEDLY WOULD TAKE YEARS, AND THAT THERE MIGHT BE LITTLE OF CHEMICO LEFT TO STRIKE AT AFTER THAT PERIOD.

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8. COMMENT: MORE WE HEAR OF THIS PROBLEM FROM TWO SIDES THE MORE DESIRABLE IT SEEMS FOR US NOT TO BET IN MIDDLE. "PUBLIC RELATIONS EXPENDITURES" QUESTION IS A NEW AND UNWELCOME COMPLICATION, WHICH DOES NOT HELP MATTERS. NEVERTHELESS BELIEVE IT STILL POSSIBLE WORK OUT SATISFACTORY SETTLEMENT, PROVIDING EXIM CRITERIA CAN BE MET AND PARTIES CAN BE PERSUADED ACT REASONABLY. AS REFTEL INDICATES, WORST OF SITUATIONS WOULD BE FOR CHEMICO TO QUIT. BELIEVE SONATRACH REALIZES THIS, BUT CHEMICO APPEARS BE LOOKING FOR ANY EXCUSE TO GET OUT OF CONTRACT. SONATRACH WOULD LIKE CHEMICO TO STAY AND IS OVER A BARREL AS A RESULT. SONATRACH NOT PREPARED, HOWEVER, PAY JUST ANY PRICE TO KEEP CHEMICO.

9. STRONGLY RECOMMEND THAT WHEN KAHLOUCHE ARRIVES WASHINGTON, MAJOR EFFORT BE MADE TO FIND FORMULA WHEREBY EXIM CAN AGREE, IN PRINCIPLE OR INFORMALLY, TO COVER UP TO DOLS 70 MILLION IN INCREASED COSTS. WITHOUT SUCH AGREEMENT, CHANCES ARE GOOD THAT SONATRACH WILL TAKE STAND ON PRINCIPLE TO MAINTAIN ITS POSITION, CHEMICO WILL TAKE OPPORTUNITY TO WITHDRAW, AND REPAYMENT TO EXIM OF THIS MAJOR LOAN, AND OTHERS ASSOCIATED WITH IT, WILL BE SIGNIFICANTLY DELAYED. IT WOULD CLEARLY SEEM TO BE IN BOTH INTEREST OF EXIMBANK AND US AS A WHOLE TO ATTEMPT TO ACCOMMODATE ALGERIAN REQUEST FOR AGREEMENT IN PRINCIPLE NOW FOR ADDITIONAL EXIM CREDITS.
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